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## Financial Outlook for Healthcare: Optimistic Report for 2024



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In 2023, healthcare organisations nationwide focused on recovering financially after a tough 2022. Hospitals and health systems saw improvements in revenues and margins, with the median hospital operating margin reaching its highest level in about two years at 2.3% in December 2023. However, ongoing expense pressures persisted, particularly in non-labor expenses, which rose over 20% from 2019 to 2023 due to inflation. Despite these challenges, healthcare leaders are optimistic about 2024, with more than half expecting further operating margin growth. Cost reduction, especially in labour expenses, remains a primary goal for these leaders, with survey respondents highlighting contract and employed labour as significant unforeseen costs in 2023. The top priorities for 2024 include reducing costs, managing strategic initiatives, and improving service line financial performance. Healthcare leaders are increasingly using data, with over 90% of organisations using benchmark data for decision-making, but many believe more can be done to leverage financial and operational data effectively. [This report from Strata Decision Technology](#) combines data from various sources to provide insights into 2023 and expectations for the year ahead.

The 2024 CFO Outlook for Healthcare report utilises data from four primary sources:

- CFO Outlook Survey: This survey gathers insights from over 100 U.S. healthcare finance professionals, representing various healthcare organisations such as hospitals, health systems, and others. It aims to identify industry trends, challenges, priorities, and changes in processes and technology.
- Axiom™ Comparative Analytics: This data source provides access to real-time data from more than 135,000 physicians across various specialties and over 10,000 practices. It also includes information from 500+ unique departments within 1,300 hospitals, offering comparisons specific to individual organisations to track market evolution.
- StrataSphere® Data: Drawing from over 115 health systems with StrataJazz Decision Support, StrataSphere utilises machine learning to analyse trillions of data points. It offers accurate, actionable, and timely comparisons of key volume metrics, providing insights into healthcare performance trends.
- Strata's All-Payer Claims Database (APCD): This proprietary database encompasses over 2 billion claims annually from all sites of care, including hospitals, ambulatory surgery centres, physician offices, and urgent care centres. Updated monthly, it offers healthcare leaders insights into market dynamics, including physician referrals and patient out-migration, aiding in a better understanding of the continuum of care.

These diverse data sources enable comprehensive analysis and reporting on the state of healthcare finances, trends, and performance metrics, offering valuable insights to industry stakeholders.

### Financial Recovery: Healthcare Organisations' Strides in 2023

In 2023, U.S. healthcare organizations made strides toward financial stability after a challenging 2022 marked by operating losses. Revenue increases contributed to improvements in operating margins for hospitals and health systems nationwide, although they were offset by ongoing expense rises. By December 2023, the median operating margin reached 2.3%, marking the 10th consecutive month of positive margins and a second month of increases following earlier instability. While margins remain narrow, overall performance improved compared to 2022, with a median increase of 2.4 percentage points in operating margin and 2.1 percentage points in operating EBITDA margin. In December 2023 versus December 2022, both the median operating margin and the operating EBITDA margin rose by 2 percentage points.

### Persistent Expense Pressures: Hospital Expenditure Trends

Throughout 2023, total hospital expenses experienced consistent increases compared to pre-pandemic levels in 2019. Non-labor expenses notably surged, rising by 21.5% over the four-year period due to inflation and other pressures. Despite overall expense growth, there were some signs of improvement in labour expenses, with a slight decrease in the rate of increase compared to the previous years, attributed to better management of contract labour costs. However, contract labour expenses remained elevated above pre-pandemic levels.

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## Managing Labour and Unforeseen Expenses in Hospital Finances

In 2023, while non-labor expenses experienced significant increases, labour expenses continued to represent the largest portion of hospitals' overall expenditures, comprising 47% of total expenses, according to Axiom™ Comparative Analytics data. Despite efforts to control pandemic-related spikes in contract labour costs, contract labour remained a key focus for hospital finance teams. A significant portion of finance professionals identified contract labour as the largest unforeseen cost for a second consecutive year, with employed labour also being a notable expense. Other unforeseen costs included technology, supply, and pharmacy expenses.

## Renewed Confidence and Strategic Priorities: Healthcare Leaders' Outlook for 2024

Following the financial challenges of 2022, the stabilisation of finances in 2023 instilled renewed confidence in healthcare leaders regarding their teams' adaptability. A vast majority of survey respondents (95%) expressed confidence in their teams' ability to adjust strategies in response to market changes, marking an increase from previous years. Financial improvements in 2023 have fueled optimism among healthcare financial professionals for performance in 2024. Over half of respondents in a nationwide survey expressed optimism about their organization's financial future, with the majority expecting operating margins to improve. Cost reductions were identified as the primary area offering opportunities for margin improvement, followed by strategic growth and quality enhancements. Priority areas for 2024 include cost reduction, strategic and performance improvement initiatives, managing service line financial performance, and revenue increases. While productivity management remains important, fewer respondents prioritised it compared to the previous year.

## Understanding the Factors Influencing Hospital Operating Margins

Data from Strata's all-payer claims database (APCD) and StrataSphere highlights the factors contributing to sustained, narrow hospital operating margins, particularly the disparity between billed amounts and reimbursements for care. Using shoulder surgeries as an example, the analysis reveals a significant gap between what hospitals bill and what they are reimbursed, with hospitals receiving nearly \$9,600 less than their billed amount as of the third quarter of 2023. This gap has widened steadily over time, while the average cost to hospitals for shoulder surgeries has increased by 12% from early 2020 to the third quarter of 2023.

## Unleashing the Full Potential: Leveraging Data for Strategic Healthcare Decisions

While most healthcare organisations utilise benchmarks for financial and operational improvements, there's recognition among finance leaders that they're not fully leveraging them. A significant majority (92%) believe their organisations should do more to utilise such data for strategic decision-making. The survey reveals that 95% of healthcare organisations use external benchmarks, with various departments using them to measure financial and operational performance, clinical quality outcomes, labour, and productivity against other organisations. There's also evidence of good coordination between finance and strategy departments, with 62% of respondents indicating familiarity with metrics used by the strategy team.

Healthcare organisations utilise various data sources to inform strategic and financial decisions, with over half tapping into benchmarks, labour benchmarks, volume projections, and other data types. Leveraging data for decision-making yields tangible benefits, as evidenced by an analysis comparing hospitals using Axiom™ Comparative Analytics with non-users. Users of Comparative Analytics achieved better 2023 results across key performance indicators, including 1.7% higher operating margins, translating to \$3.1 million more in margins. They also saw increased revenues, with 1.9% higher outpatient revenue and 0.8% higher inpatient revenue per hospital on average. Moreover, Comparative Analytics users had lower expenses, with total expense per adjusted patient day and non-labour expense per adjusted patient day being 1.8% and 2.4% lower, respectively, resulting in substantial savings for the average hospital.

## Strategic Imperatives for Healthcare Leaders: Navigating Challenges and Building on Gains

Healthcare leaders are urged to strategize for the future by focusing on three key imperatives:

- **Manage margins with continuous monitoring:** Despite recent margin improvements, organisations must vigilantly monitor factors like expense increases and patient demand shifts. By benchmarking their performance internally and externally, they can proactively identify improvement opportunities and implement strategies to sustain momentum.
- **Leverage a service line approach:** Integrating service line analytics into strategic and financial initiatives is crucial. Insights into service line performance aid in tactical and strategic decision-making, allowing leaders to identify underperforming areas and assess the impact of specific initiatives.
- **Improve reimbursements:** Closing the gap between reimbursements and actual costs requires informed negotiation strategies. Market-specific claims data helps organisations prepare for negotiations by understanding their position relative to peers and the broader healthcare market.

Source: [Strata Decision Technology](#)

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